By LAWRENCE BRIDGE

New Depreciation Guidelines and the Investment Tax Credit

Effect on 1962 Corporate Profits and Taxes

Corporate depreciation allowances in 1962 totaled $27.7 billion, or $4.1 billion more than in the previous year. About $2.4 billion of this increase was attributable to the use of the new guidelines for depreciation issued last year by the Treasury Department. In the absence of the guidelines the increase in corporate depreciation charges would have been $1.7 billion in 1962. In 1961, the rise was $1.4 billion.

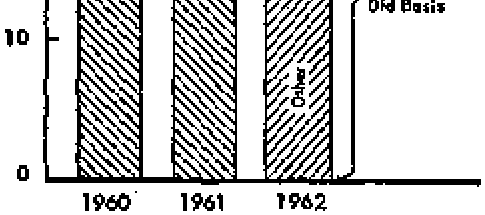
As a result of the higher depreciation permitted by the revised Treasury regulations, corporation income tax accruals were $1¼ billion lower in 1962 than they would otherwise have been. In addition, the tax legislation last year permitting companies to take an investment tax credit on machinery and equipment purchases reduced corporation tax liabilities by a further $1 billion.

These are the major findings of a special survey of corporations,[1] conducted in April and May by the Office of Business Economics, in order to quantify the effects of these two measures on business incomes, taxes, and cash flow. This survey was designed primarily for use in the national income and product accounts, but also to aid various governmental agencies in policy and other considerations pertaining to taxation and economic growth. The new national product estimates presented in this issue of the SURVEY incorporate the results of this special study. Comprehensive data of this type from compilations of business income tax returns will not be forthcoming until mid-1964. A description of the survey coverage and estimation methodology appears in a technical note at the end of this article.

The Survey questionnaire asked companies whether they adopted the new guidelines in reporting depreciation charges in their 1962 income tax return to the Internal Revenue Service. Those that did were asked to report the amount of depreciation deductions actually taken as well as the amount that would have been deducted if the new guidelines had not been used. Those that did not adopt them were asked to report depreciation charged in 1962 and to indicate the reason for not using the guidelines. Information was also obtained from those companies who had not yet filed their 1962 tax return and those that were still undecided on the use of guidelines. Finally all corporations were asked to report the amount of investment tax credit claimed on Line 8 of Treasury Form 3468, and their depreciation deductions in 1960 and 1961.

CORPORATE DEPRECIATION ALLOWANCES ACCELERATED

- New Guidelines Increased Depreciation Allowances by an Additional $2.4 Billion in 1962
- Corporations Using Guidelines Accounted for About One-Half of Total Depreciation



Data: Internal Revenue Service & OBE

U.S. Department of Commerce, Office of Business Economics 63-7-2

Depreciation guidelines and Bulletin "F"

The Treasury Department in July 1962 issued its Revenue Procedure 62–21 establishing new guidelines in determining service lives of depreciable property for tax purposes; similar guidelines had been established late in 1961 for textile machinery.[2] These new standards are the first comprehensive revision of service lives since those set forth in Bulletin "F" in 1942—although over the intervening years a large number of companies had moved to service lives shorter than those prescribed in Bulletin "F" after obtaining approval from the Internal Revenue Service.

The new guidelines were established to bring depreciation standards closer to actual business experience, considering the rapid technological advances being made and the earlier obsolescence caused by this progress. Also, the Department felt that the additional cash flow would stimulate business activity through both increasing the rate of return on investment and making the financing of investment easier.

The major impact of the new guidelines is in the shortening of average service lives of machinery and equipment for tax purposes; the revision for structures is small. The new service lives for depreciation of equipment on the average are about one-third shorter

1. Information was not collected from noncorporate firms in this Survey. It has been estimated that those firms would obtain an additional $0.3 billion in depreciation deductions in 1962 through guideline use. Tax savings have been estimated at $0.1 billion through this additional depreciation, and a further $0.2 billion from the investment tax credit.

2. For a fuller explanation of Revenue Procedure 62-21, see *Depreciation Guidelines and Rules*, Publication No. 456 (7-62), July 1962, U.S. Treasury Department. Superintendent of Documents, Washington, D.C., 20402.

than those set forth in Bulletin "F"—and about 20 percent shorter than the average lives used in actual practice by the larger corporations. According to a Treasury Department survey the average equipment life for manufacturers in 1959 was about 15 years, as compared to 12 years for the new guidelines and 19 years for Bulletin "F."

Total corporate depreciation allowances in 1962 amounted to almost 10 percent more than such charges would have been in the absence of the new guidelines. This percentage varies widely by industry, however, due primarily to differences in the degree to which service lives were reduced from earlier practices, the assets-mix of the industry—particularly between equipment and structures—and the number of companies electing to modify their depreciation policies for tax purposes.

Table 1.—Depreciation Deductions, By Guideline and Nonguideline Use, and Investment Tax Credit, All Corporations, 1962

[Millions of dollars]

	Corporate Depreciation [1]						1962 Investment tax credit
	1960	1961	1962				
			Total	Using guidelines	Not using guidelines	Additional depreciation from guideline use	
All corporations	23,160	24,677	27,708	14,771	12,937	2,432	1,041
Manufacturing and mining	10,559	11,303	13,623	9,323	4,300	1,722	516
Food and beverage	985	1,016	1,224	745	459	119	58
Textile	319	353	425	245	180	33	20
Paper	466	611	673	586	87	121	35
Chemical	1,154	1,256	1,562	1,380	182	263	69
Petroleum refining and extraction	1,739	1,503	2,055	1,222	833	166	45
Rubber	214	237	300	178	122	30	16
Stone, clay and glass	468	482	600	398	213	62	20
Metal refining and extraction	1,139	1,223	1,540	1,238	302	237	61
Iron and steel manufacturing	661	n.a.	899	813	86	182	27
Machinery except electrical	880	926	1,130	782	348	75	30
Electrical machinery	479	529	628	489	139	71	24
Motor vehicles and parts	718	721	870	841	29	149	32
Transportation equipment excluding motor vehicles	255	254	245	90	155	14	10
Other manufacturing and mining	1,743	1,677	2,312	1,340	972	236	93
Transportation	1,943	2,000	2,557	1,481	1,076	340	102
Public utilities	2,290	2,385	2,621	1,279	1,342	104	103
Communication	1,064	1,199	1,334	210	1,124	11	75
Commercial and other	6,365	6,715	7,573	2,478	5,095	229	245

1. Differs from table 61 of this issue primarily because of exclusion of amortization, some industrial reclassification, and the treatment of mutual companies.

Source: Data for 1960 and 1961 from the Internal Revenue Service; 1962 estimates based on survey by the Office of Business Economics.

Table 2.—Corporate Tax Liabilities, Tax Reductions, and Cash Flow, 1962

	Tax liability	Tax Reduction			Cash [1] Flow	Reduction in tax liability as a percentage of cash flow
		Total	From Investment tax credit	From Depreciation guidelines		
	Millions of dollars					
All corporations	22,180	2,271	1,041	1,230	36,353	6
Manufacturing and mining	11,962	1,387	516	871	19,195	7
Communications and public utilities	2,549	235	178	57	4,968	5
Transportation	402	274	102	172	2,341	12
Trade and services	2,802	247	158	89	5,631	4
All other	3,725	128	87	41	4,319	3

1. Undistributed profits plus depreciation allowances.

Source: U.S. Department of Commerce, Office of Business Economics.

Increases largest in manufacturing and transportation

The results of the Survey of Depreciation and Investment Tax Credit are shown in Table 1. Corporations electing to use guideline service lives in 1962 accounted for $14.8 billion, or almost 55 percent of total corporate depreciation allowances in 1962. For these firms, the changeover resulted in an increase of almost one-fifth in depreciation set asides from the deductions they would have taken in 1962 had the guidelines not been used.

Depreciation deductions in transportation and in the manufacturing and mining group were 17 percent and 14 percent, respectively, more than on a pre-guideline basis. The additional depreciation of firms in the latter group, which accounts for somewhat under one-half of all corporate depreciation, was $1.7 billion, or 70 percent of the total for all corporations. Transportation firms, and particularly railroads, also reported a more than proportionate share—15 percent—of the additional depreciation charges. In this industry, as in manufacturing, capital assets of equipment are relatively large, and the new guidelines shortened these average service lives appreciably. Among most nonmanufacturing industries structures are the predominant form of assets, and guideline users were generally in the minority. Increases in set asides for public utilities and in the commercial group were less than 5 percent of depreciation on the "old" basis.

Within manufacturing, the amount of depreciation reported by guideline users was well in excess of the allowances of nonguideline companies in every major industry except aircraft and nonelectrical machinery. Adoption of guidelines resulted in particularly large relative additions to depreciation charges in the primary metal, motor vehicle, paper, chemical and stone, clay and glass industries. The lowest additional set asides relative to what they would have been in the absence of the new regulations occurred in petroleum, nonelectrical machinery, and nonautomotive transportation equipment.

Large firms' charges increase most

The relative amount of additional depreciation obtained through guideline use increased with assets-size of company. This pattern, which can be seen for manufacturing, trade and service corporations in the accompanying chart, is attributable in part to the fact that over the years the depreciation systems of the larger firms have been more closely audited than have those of smaller firms, with the result that the average service lives of larger firms were probably longer than lives used by smaller firms. Furthermore, small firms frequently indicated that they required more time for study of the new procedures and have not, at least for their 1962 returns, elected to use the guidelines; this was a much smaller factor for large corporations.

As can be seen in the chart, the increase in depreciation for large manufacturers (with over $100 million in assets) was equal to 18 percent of their 1962 deductions on a pre-guideline basis; the comparable percentages for medium-size corporations and for those with less than $10 million of assets were 15 and 7, respectively. The relative experience among the different size classes of trade and service corporations was similar. Here, corporations with over $100 million of assets experienced a 10 percent increase in depreciation deductions in 1962, while firms with assets of under $5 million took 2 percent more in set asides.

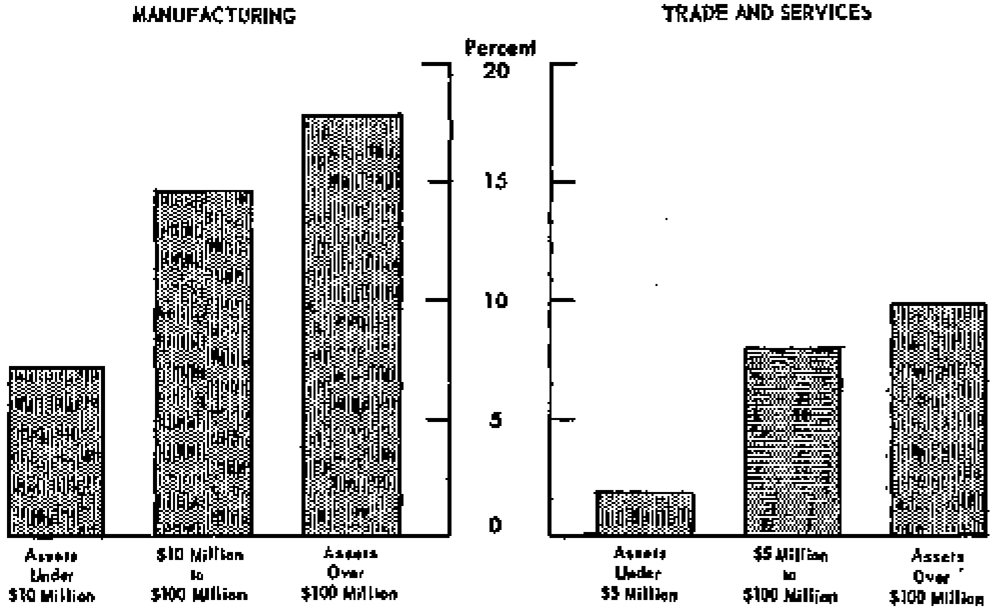
Tax reduction and profits in 1962

The recovery in business activity from 1961 to 1962 was accompanied by a sharp rise in corporate earnings. If the 1962 depreciation were computed on the basis of the procedures in effect in 1961, the increase in corporate profits would have been $5.4 billion. Since the depreciation setasides on the new guidelines rose an additional $2.4 billion the 1962 increase in estimated net profits (as reported in the national income accounts) was reduced to $3 billion. The increased depreciation charges reduced corporation 1962 income tax liabilities by somewhat over $1.2 billion.

An additional $1 billion reduction was provided by the tax credit granted by the Revenue Act of 1962 on investment in depreciable machinery and equipment used in the United States. This credit is allowable to the extent of up to 7 percent of qualified investment, except for investments of regulated public utilities and communication companies which are used in local services where the maximum credit is 3 percent. The legislation contains several restrictions: buildings, most other structures, and assets with service lives of less than 4 years are excluded; the credit is reduced for assets with lives of 4 to less-than-8 years; and the amount of taxes that can be offset in 1 year is limited to $25,000 plus one-fourth of the tax liability in excess of this amount—although a 3-year carryback and 5-year carryforward of unused credits is provided. The credit must also be deducted from the value of the asset in determining depreciation allowances.

Additional Depreciation Charges Accruing to Corporations From Guideline Use in 1962, by Asset Size

Additional Allowances Were Higher as a Percent of Total Depreciation With Increasing Size



U.S. Department of Commerce, Office of Business Economics 63-7-3

As a result of the guidelines and investment tax credit, summarized in the following table, profits tax liabilities rose only $0.2 billion from 1961 to 1962, as compared to an estimated $2.5 billion expansion computed on the pre-1962 regulations. Thus the two measures have provided corporations with an additional cash flow through tax reductions of about $2.3 billion.

As can be seen in table 2, manufacturing and transportation companies

[Billions of dollars]

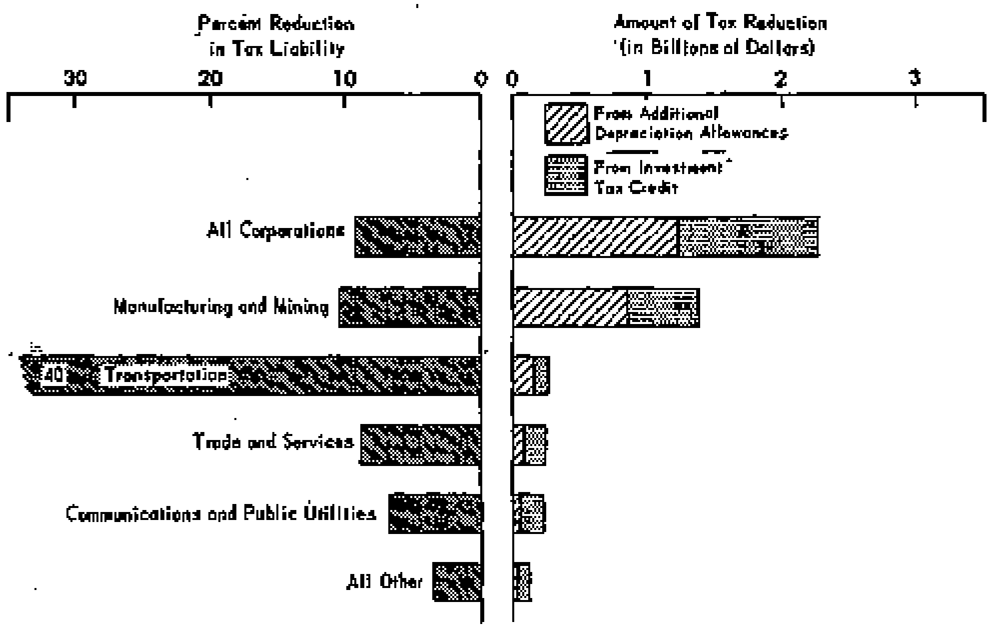
	1961	1962	Change
Corporate profits before taxes, excluding effects of guidelines and investment tax credit	43.8	49.2	5.4
Less: Guideline effect		2.4	
Corporate profits before taxes with guidelines and investment tax credit	43.8	46.8	3.0
Corporate profits tax liability excluding effects of guidelines and investment tax credit	22.0	24.5	2.5
Less: Tax reduction through guidelines		1.2	
Investment tax credit		1.0	
Corporate profits tax liability with guidelines and investment tax credit	22.0	22.2	.2
Corporate profits after taxes excluding effects of guidelines and investment tax credit	21.8	24.7	2.9
Corporate profits after taxes with guidelines and investment tax credit	21.8	24.6	2.8

were especially benefited by the shortening of average service lives. As a result, the bulk of the tax reduction in those industries was attributable to the guidelines, while for all other major industry groups the investment tax credit was the greater contributor to their tax savings.

Manufacturing and mining firms took about $500 million in tax credits on their 1962 investment—about one-

REDUCTION IN 1962 CORPORATE INCOME TAX LIABILITIES

- $1 1/4 Billion Due to Additional Guideline Depreciation
- $1 Billion Due to the Investment Tax Credit
- Total Reduction Is 9 Percent of Tax Liability



U.S. Department of Commerce, Office of Business Economics 63-7-4

half of all corporate investment tax credits. The credit amounted to about 3¼ percent of total 1962 plant and equipment outlays in manufacturing and mining, and under 2 percent in communications and public utilities. The figure for electric power companies, where the maximum credit for many investments was 3 percent, was just under 1½ percent of total investment.

Reasons for Not Using Guidelines

Corporations that decided not to adopt the guidelines were asked to indicate briefly their reasons for this decision. All but 11 percent of the respondents in this category supplied this information. An additional 4 percent simply reported "no advantage" and this was considered too vague for further interpretation.

Table 3 presents percentage distributions, by number of corporations and by value of depreciation deductions, of the reasons reported by firms which did not adopt the new guidelines in 1962. The figures in the table represent universe estimates determined from the sample, after excluding those nonusers that did not supply "usable" information. Most companies provided only one reason; in the case of multiple answers, only the one that appeared to be the most important was used.

It should be noted that the category "other management preferences" undoubtedly includes companies that would have been classified in other categories if more information had been available. For example, these preferences may have stemmed from the fact that established service lives were shorter than guidelines, or that the company was operating at a loss.

As can be seen from the table, among nonguideline users 48 percent of corporations with 40 percent of 1962 depreciation deductions were using average service lives which were not appreciably different from, or were shorter than, those proposed by the guidelines. A frequent response was that the guideline life for buildings was much longer than their experience would support. Companies with one-fifth of the depreciation deductions in this major reason category said that guideline lives were slightly shorter, but that the smallness of the tax savings did not warrant the necessary effort either because the guidelines were "too complicated," or depreciable assets were insignificant.[3]

As noted above, this group is understated to the extent that the "management prefers existing procedures" classification contains companies using write-offs as fast or faster than suggested by the guidelines. It is felt that this understatement is particularly large for the smaller concerns—and so affects the distribution by numbers more than that by depreciation amounts.

The "management preference" group accounted for about one-third of the firms. Included in this classification are corporations which indicated that management did not approve of faster write-offs, or preferred an individual asset system to one grouping assets, or did not wish to lower reported profits, or preferred not to destroy the comparability of their records over time. A large proportion of this group indicated that their present system was "adequate" or "sufficient," or simply said that management preferred its present procedures.

Other reasons

While not important in terms of number of concerns, firms with 15 percent of the total deductions of nonguideline users in 1962 reported that they wish to continue procedures established with regulatory bodies. As would be expected these companies were primarily in the communications and public utility fields. This reason was relatively less important (dollarwise) for electric companies than for communications or gas companies.

About 4 percent of the nonguideline users (both by number and depreci-

3. It is interesting to note that while many companies did not use guidelines because the tax savings was considered negligible compared to the effort required in the changeover, many other firms adopting guidelines did so even though there was a small disadvantage. About 1 in 10 of the guideline users were in this group, with aggregate depreciation deductions of about $40 million below their deductions on the old basis.

Table 3.—Corporations Not Using Guidelines in 1962 Classified According to Major Reason

	As percent of number						As percent of depreciation deductions					
	Total	Manufacturing and mining	Communications and public utilities	Transportation other than railroads	Trade and services	All other	Total	Manufacturing and mining	Communications and public utilities	Transportation other than railroads	Trade and services	All other
Total	100	100	100	100	100	100	100	100	100	100	100	100
No appreciable tax advantage	44	40	32	26	48	43	32	41	14	12	44	33
Existing procedures in line with guidelines	27	32	31	17	25	30	25	35	13	6	30	29
Minor advantage but not worth effort	8	6	1	9	9	7	6	6	1	6	8	3
Fixed assets insignificant	9	2			14	6	1	(1)			6	1
Present average service lives shorter than guidelines	4	4	1	9	2	5	6	4	2	22	4	19
Management prefers existing procedures	34	33	12	26	34	36	31	34	15	13	28	44
Do not approve faster write-offs	1	1			2	1	1	(1)			(1)	4
Individual item system preferred to class life	3	3		4	2	3	3	5		2	5	1
Other management preferences	30	29	12	22	30	32	27	29	15	11	24	39
No 1962 profits tax liability	4	7	1	13	4	2	4	5	(1)	18	3	(1)
Reserve ratio is or will be too high	5	5	4	9	4	5	5	4	3	6	2	2
Continuing procedures established with regulatory agencies	1		52	17			15		59	29		
Insufficient time for decision	8	11	8		8	6	7	12	7		6	2
Further study required, will reconsider in future	6	7	7		5	5	5	8	7		5	1
Clarification of guidelines needed	1	2			2	1	1	2			(1)	1
Will use in 1963 tax return	1	2	1		1		1	2	(1)		1	

1. Less than one-half of 1 percent.

Source: U.S. Department of Commerce, Office of Business Economics.

ation) reported that they did not find guidelines beneficial in 1962 since they either were operating at a loss or had a loss carryover from earlier years. Higher-than-average proportions citing this reason were in the transportation group and in the manufacturing and mining group.

Some 5 percent of the concerns with about 3 percent of depreciation deductions of all nonguideline users referred to the reserve ratio test as being the primary reason for not adopting guidelines. These companies said that their reserve ratios are, or will be, too high to justify guideline lives. The reserve ratio, which is obtained by dividing total depreciation reserves for all assets in a guideline class by the cost of those assets, is a test that can be used to demonstrate the consistency of a taxpayer's retirement and replacement practices with the class life being used. Reserve ratio tables issued by the Treasury Department indicate whether shorter class lives can be claimed by a taxpayer, or whether (in the absence of other justification) the lives should be lengthened.

The reserve ratio test was most frequently cited as a reason for not adopting guidelines by manufacturers and by the nonrail transportation companies in the survey. Within manufacturing there was a clear relationship by assets-size of firm: the frequency of the reason and the relative amount of depreciation decreased as firm-size increased.

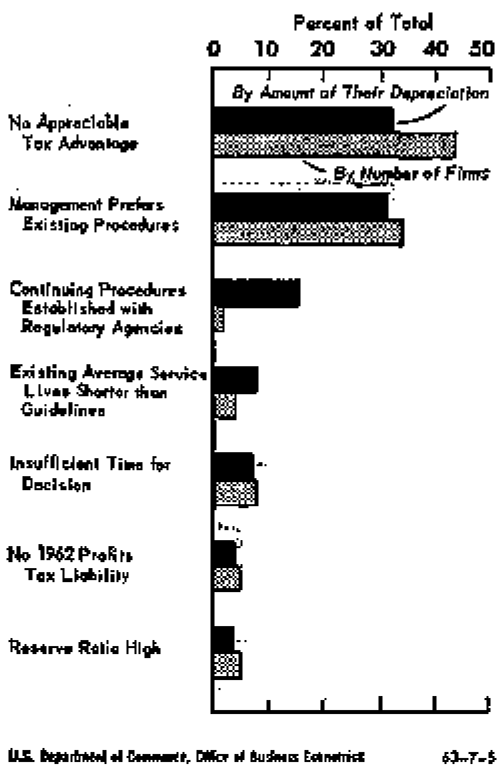
The final major reason category consists of companies who did not use guidelines in 1962 pending further study. This group had made just under 7 percent of the depreciation deductions of all nonguideline corporations. There was an inverse relationship between its frequency and size of firm (see table 4).

Corporations with the bulk of this group's depreciation (or 5 percent of the set asides of all guideline nonusers) indicated that they did not have sufficient time for study before filing their 1962 returns, and would reconsider in the future. Other companies indicated that they had decided to use the guidelines in their 1963 tax returns. The remainder of this group said that they did not understand the guidelines and that further clarification was required.

Technical Notes

The sample used in this Survey was basically the same as that used in the regular OBE-SEC Plant and Equipment Survey. The latter consists of three panels: about 3,500 corporations registered with the SEC, over 5,500 nonagricultural nontransportation firms

Corporations Classified According to Reason For Not Using Guidelines in 1962



U.S. Department of Commerce, Office of Business Economics 63-7-5 reporting to the OBE, and transport companies under the jurisdiction of the Interstate Commerce Commission. Since some 4,000 transport companies had already filed annual reports for 1962 with the ICC, they were not canvassed in the Depreciation and Investment Tax Credit Survey. Estimates of dollar amounts for the transportation industries (other than airlines, which were covered in the Survey) were made directly from these annual reports; information on the reasons why these companies did not elect to use the new guidelines is available only for airlines and the small number of nonrail transport companies registered with the SEC.

About 6,200 of the 9,000 corporations receiving questionnaires responded in the Survey, of which 5,440 companies supplied usable information. Most of the remaining firms reported that they had not yet filed their 1962 income tax returns nor could they supply the "carefully prepared" estimates that were solicited in the instructions for such companies.

Table 5 presents detailed figures on the number of returns and the sample coverage in terms of 1961 depreciation allowances. The 5,440 corporations with usable information for 1962 accounted for 55 percent of the depreciation allowances reported in all corporate income tax returns to IRS in 1962. The dollar coverage was 60 percent in manufacturing and mining, and over 85 percent in the public utilities and communications. Although not included in table 5, virtually complete coverage was obtained by the ICC from the railroads and other transport industries under its jurisdiction, but considerable estimation was required before these reports could provide the data requested in the survey. The lowest coverage ratio occurred in trade and services (15 percent).

Table 4.—Manufacturing, Trade and Service Corporations: Distribution of 1962 Depreciation between Guideline and Nonguideline Users, and by Major Reason for Not Using Guidelines, by Assets-Size

	Manufacturing				Trade and Services			
		Asset size				Asset size		
	Total	Under $10 million	$10 million to $100 million	Over $100 million	Total	Under $5 million	$5 million to $100 million	Over $100 million
	Percent of total							
Total Depreciation Deductions	100	100	100	100	100	100	100	100
Guideline companies	69	47	69	78	34	27	52	46
Nonguideline companies	31	53	31	22	66	73	48	54
Additional depreciation from guideline use as a percent of total deductions [1]	14	7	15	18	4	2	5	10
	Percent distribution of nonguideline users' depreciation, by major reasons							
TOTAL	100	100	100	100	100	100	100	100
No appreciable tax advantage	42	44	44	40	44	39	36	26
Existing procedures in line with guidelines	38	40	38	36	30	22	27	18
Minor advantage but not worth effort	4	4	6	4	8	9	7	8
Fixed assets insignificant	(2)	(2)	(2)	-------	6	8	2	-------
Present average service lives shorter than guidelines	4	4	3	1	6	2	14	24
Management prefers existing procedures	33	32	27	44	39	38	45	39
Do not approve faster write-off	-------	-------	-------	-------	(2)	(2)	-------	-------
Individual items system preferred to class life	5	2	2	8	4	5	3	3
Other management preferences	27	30	25	36	35	33	42	36
No 1962 profits tax liability	5	2	7	7	3	4	(2)	2
Reserve Ratio is or will be too high	5	11	3	-------	2	1	(2)	7
Insufficient time for decision	12	17	11	8	6	7	5	2
Further study required, will reconsider in future	8	13	8	3	6	6	5	2
Clarifications of guidelines needed	2	1	1	3	(2)	(2)	-------	-------
Will use in 1963 tax return	2	3	2	2	(2)	1	(2)	-------

1. Based on 1962 depreciation deductions on preguideline basis.
2. Under one-half of 1 percent.

Source: U.S. Department of Commerce, Office of Business Economics.

In considering these coverage ratios by detailed industries, however, it should be noted that companies were instructed to report consolidated data even if separate tax returns are filed for subsidiaries. This was done to reduce the reporting burden, but it affects the recorded industry coverage. The impact of greater consolidation can result in some shifting between industries but should have little effect on the all industry total. Since the most affected industries are mining and manufacturing—particularly between the refining of petroleum and metals, and their extraction—these industries have been combined.

A test was made of the ability of the sample to project depreciation allowances from 1960 to 1961. Excluding real estate (where the sample is particularly deficient), the 1961 estimate based on the sample was within 1 percent of the figure obtained by IRS from compilations of income tax returns.

The estimation process used a ratio formula based on the 1960 and 1961 depreciation deductions of the reporting panel and of all corporations (from IRS). The ratio was applied separately to the reported depreciation of the three elements within each industry-size class: guideline users, nonguideline users, and "no decision" companies. Estimates for manufacturing, trade, services, and construction were made by three size groups using ratios based on 1960 depreciation—since that is the latest year for which size information is now available. Other industries' estimates are based on IRS information for 1961 which is available by industries.

Processing of "no decision" companies

Based on these universe estimates, corporations accounting for 11 percent of total depreciation allowances in 1961 had not—at the time the Survey was made—made a decision as to whether or not they would use the new guidelines in their 1962 tax returns. It was assumed that when these companies file their returns they will become guideline users or nonusers in the same proportions as the sample companies in

Table 5.—Depreciation Guidelines and Investment Tax Credit Survey: Number of Corporations in Sample and Coverage by Value of Depreciation Deductions, 1961

	Number of firms with usable data	Depreciation Deductions, 1961 Sample as a percent of Universe
All corporations [1]	6,448	65
Manufacturing and Mining	2,952	90
Primary metals refining and extraction	215	78
Fabricated metal	331	41
Machinery, except electrical	349	70
Electrical machinery	232	68
Motor vehicles and parts	54	91
Transportation excluding motor vehicles	72	89
Stone, clay and glass	106	45
Food and beverage	315	40
Tobacco	25	95
Textiles	172	41
Paper	110	84
Chemicals	215	79
Petroleum refining and extraction	96	68
Rubber	63	44
Other manufacturing and mining [2]	706	30
Communication and public utilities	215	97
Airlines	11	77
Other transportation	(3)	(3)
Trade and service	1,637	16
All other [4]	725	22

1. Excludes agriculture, forestry, fisheries, personal services, real estate and transportation other than airlines.
2. Includes apparel, lumber, furniture, printing and publishing, leather, instruments, ordnance, miscellaneous and coal mining.
3. Data from virtually all railroads and about 4,000 other transportation companies were obtained from annual reports to the Interstate Commerce Commission.
4. Includes construction, banks, and insurance companies.

Source: U.S. Department of Commerce, Office of Business Economics.

their industry and size-class. It was further assumed that the 1962 depreciation allowances for these "no decision" firms would show the same change from 1961 as did the allowances of those firms that already filed 1962 tax returns in the comparable industry size-class.

Investment tax credit

Two estimates of the amount of investment tax credit taken by all corporations in 1962 were made from the data on tax credit taken for 1962 by the reporting panel: one used the 1961 ratio of universe depreciation allowances to those of the sample corporations, and the other was based on the universe-sample ratio for 1962 plant and equipment expenditures (derived from the OBE–SEC quarterly survey). The 1960 depreciation deduction ratios, rather than the 1961 ratios, were used in the manufacturing, trade, service and construction industries where size estimates were prepared.

The estimate of the investment tax credit for 1962 derived by depreciation weights (and used throughout this article) was $1 billion—as compared to $0.9 billion yielded by the capital expenditures procedure. While it is difficult to choose between these two figures, there were several statistical reasons for preferring the former. First, both depreciation allowances and the investment tax credit were obtained from respondents on the same form and consequently on the same basis. The respondent, data for plant and equipment outlays were collected in the OBE–SEC investment survey some months earlier and could have been on a different basis than the investment tax credit reported with regard to consolidation, internal company accounting procedures, etc. Secondly, investment figures were unavailable for an appreciable number of companies reporting in the present survey so that depreciation method allowed the use of a larger number of cases. Finally, a considerable amount of 1962 plant and equipment outlays is not eligible for tax credit. Plant investment is generally not covered by the legislation and equipment purchases with short lives are either ineligible or allowed a lower rate. Thus, the amount of aggregate fixed investment is not as directly related to the tax credit as appears to be the case at the outset.

The Business Situation

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cent above a year ago, the stock-consumption ratio at consumers' plants of 2.0 at the end of May was no higher than in March, and compared with 2.5 in the same month last year when liquidation of steel stocks was already well underway. Although some reduction in steel stocks may be expected in the coming months, the adjustment should be more moderate and accomplished more quickly than was the case last year.

Supported by brisk sales, auto producers continued active by turning out 810,000 cars and trucks, the highest for any June and the third successive month of completions in excess of 800,000 units. The increase from May to June amounted about 10 percent, after approximate allowance for seasonal influences, the largest month-to-month gain this year. The June count rounded out a second quarter total of nearly 2.5 million units and brought completions for the first half of this year to about 4.8 million cars and trucks, some 530,000 higher than in the comparable period of 1962 and within 100,000 of the record set in the January–June period of 1955. Production schedules are expected to fall seasonally from June to July, reflecting the beginning of plant shutdowns for model changeovers.

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